

**ILLINOIS CHILDREN'S
HEALTHCARE FOUNDATION**

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION

YEARS ENDED DECEMBER 31, 2019 AND 2018

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Independent Auditors' Report

Board of Directors
Illinois Children's Healthcare Foundation

We have audited the accompanying financial statements of Illinois Children's Healthcare Foundation (the Foundation), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Illinois Children's Healthcare Foundation as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of Illinois Children's Healthcare Foundation as of and for the year ended December 31, 2018, were audited by other auditors whose report dated June 20, 2019, expressed an unmodified opinion on those statements.

Ostrow Reisin Berk & Abrams, Ltd.

June 25, 2020

ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION

STATEMENTS OF FINANCIAL POSITION

December 31,	2019	2018
ASSETS		
Cash	\$ 891,626	\$ 1,262,941
Investments	154,242,350	132,512,289
Prepaid expenses	49,584	82,957
Property and equipment, net	7,413	11,073
Total assets	\$ 155,190,973	\$ 133,869,260
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 32,570	\$ 58,705
Grants payable	10,014,025	2,353,913
Total liabilities	10,046,595	2,412,618
Net assets:		
Without donor restrictions	145,144,378	131,456,642
Total liabilities and net assets	\$ 155,190,973	\$ 133,869,260

See notes to financial statements.

ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION

STATEMENTS OF ACTIVITIES

Years ended December 31,	2019	2018
Revenue:		
Net investment income (loss)	\$ 28,731,125	\$ (9,039,174)
Expenses:		
Program services	14,589,478	5,956,764
Management and general	453,911	439,421
Total expenses	15,043,389	6,396,185
Change in net assets without donor restrictions	13,687,736	(15,435,359)
Net assets without donor restrictions, beginning of year	131,456,642	146,892,001
Net assets without donor restrictions, end of year	\$ 145,144,378	\$ 131,456,642

See notes to financial statements.

ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES

Years ended December 31,	2019			2018		
	Program services	Management and general	Total	Program services	Management and general	Total
Grants approved	\$ 13,311,026		\$ 13,311,026	\$ 4,969,912		\$ 4,969,912
Salaries and related costs	865,250	\$ 126,139	991,389	776,948	\$ 94,446	871,394
Professional fees	344,176	113,955	458,131	146,809	146,407	293,216
Excise taxes		46,181	46,181		55,197	55,197
Rent		57,889	57,889		53,804	53,804
Office expenses and related costs	23,024	85,308	108,332	21,666	67,116	88,782
Meetings	46,002	20,779	66,781	41,429	18,208	59,637
Depreciation		3,660	3,660		4,243	4,243
Total expenses	\$ 14,589,478	\$ 453,911	\$ 15,043,389	\$ 5,956,764	\$ 439,421	\$ 6,396,185

See notes to financial statements.

ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION

STATEMENTS OF CASH FLOWS

Years ended December 31,	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 13,687,736	\$ (15,435,359)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	3,660	4,243
Net realized and unrealized (gains) losses on investments	(24,995,474)	12,441,592
(Increase) decrease in operating asset:		
Prepaid expenses	33,373	(59,548)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(26,135)	(86,035)
Grants payable	7,660,112	(306,757)
Net cash used in operating activities	(3,636,728)	(3,441,864)
Cash flows from investing activities:		
Proceeds from sale of investments	4,501,851	11,343,827
Purchases of investments	(1,236,438)	(7,242,877)
Net cash provided by investing activities	3,265,413	4,100,950
Net increase (decrease) in cash	(371,315)	659,086
Cash, beginning of year	1,262,941	603,855
Cash, end of year	\$ 891,626	\$ 1,262,941
Supplemental disclosure of non-cash information:		
Cash paid during the year for taxes	\$ 7,000	\$ 118,383

See notes to financial statements.

ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

1. Nature of operations

Illinois Children's Healthcare Foundation (the Foundation) is a corporation that was organized as an exempt organization under Section 501(c)(3) of the Internal Revenue Code in December 2002. The Foundation was created through an action of then Attorney General Jim Ryan and an Illinois insurance carrier. This action and a settlement of approximately \$125 million established the only private foundation focused solely on the health needs of children in Illinois.

The Foundation's efforts, while broadly defined by its Articles of Incorporation, have been focused generally on ensuring every child in Illinois has the opportunity to grow up healthy. To carry out this vision, the Foundation is focusing its efforts on children's oral health, mental health and innovative programming throughout the state of Illinois. The Foundation has primarily funded initiatives that enhance and expand the availability and delivery of services, increase the eligible workforce and communicate the importance of proper healthcare.

Each year, specific funding areas are identified and communicated to potential applicants. Most funding is generated and authorized through a "Request for Proposal" process. In addition, the Foundation will consider other grant requests throughout the year that fit within the criteria allowed for funding.

2. Summary of significant accounting policies

These financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of presentation:

These financial statements report net assets separately by class of net assets. The sole class of net assets is defined as net assets without donor restrictions, which are amounts that are not donor restricted and are currently available for use in the Foundation's operations.

Cash:

The Foundation maintains its cash with one financial institution with balances which at times may exceed federally-insured limits. The Foundation had approximately \$681,000 and \$1,302,000 in excess of federally-insured limits at December 31, 2019 and 2018, respectively. The Foundation believes it is not exposed to any significant credit risk on cash.

ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

Investments:

The Foundation's investments are stated at fair value. Net investment income (loss) includes realized and unrealized gains and losses, and interest and dividend income which is recorded on the accrual basis, and net of external investment expenses.

The Foundation's investments are exposed to various risks such as interest rate, credit and overall market volatility. Due to these risk factors, it is reasonably possible that changes in the value of investments will occur in the near term and could materially affect the amounts reported in the statements of financial position.

Expense allocation:

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and related costs which are allocated on the basis of time and effort. All other expenses are directly allocated.

Grants payable:

Grants payable represents unconditional grants that have been authorized prior to year-end, but remain unpaid as of the statements of financial position date. Conditional grants are expensed and considered payable in the period the conditions are substantially satisfied.

Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

Subsequent events:

Management has reviewed and evaluated subsequent events through June 25, 2020, the date the financial statements were available to be issued.

COVID-19 has led to increased short-term market volatility and may have adverse long-term effects on U.S. and world economies and markets generally and which may adversely impact the Foundation's investments. Its full impact, including on securities markets, the global economy and business operations, is unknown at this time. In response to the COVID-19 pandemic the Foundation has and will continue to engage in COVID-19 responsive grant making which management expects will result in the Foundation exceeding its minimum required distribution in 2020.

3. Fair value measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date.

Investments are measured at fair value in accordance with the fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The hierarchy describes three levels of inputs that may be used to measure fair value:

Level 1 Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Estimated fair values for the Foundation's mutual funds were based on quoted market prices.

Level 2 Observable market-based inputs or unobservable inputs that are corroborated by market data. The Foundation uses no Level 2 inputs.

Level 3 Unobservable inputs that are not corroborated by market data. These inputs reflect management's best estimate of fair value using its own assumptions about the assumptions a market participant would use in pricing the asset or liability. The Foundation uses no Level 3 inputs.

ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Fair value measurements (continued)

The following table sets forth by level, within the fair value hierarchy, the Foundation's financial assets that were accounted for at fair value on a recurring basis as of December 31, 2019 and 2018:

December 31,	2019	2018
	Level 1	
Investments:		
Vanguard Federal Money Market Fund	\$ 1,236,438	\$ 1,042,877
Vanguard bond mutual funds	36,868,085	35,188,053
Vanguard equity mutual funds	116,137,827	96,281,359
Total investments	\$ 154,242,350	\$ 132,512,289

Net investment income (loss) is comprised of the following for the years ended December 31, 2019 and 2018:

Years ended December 31,	2019	2018
Dividends and interest	\$ 3,908,946	\$ 3,573,236
Realized gains	934,560	2,163,506
Unrealized gains (losses)	24,060,914	(14,605,098)
Investment fees	(173,295)	(170,818)
Net investment income (loss)	\$ 28,731,125	\$ (9,039,174)

ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. Grants payable

Grants payable in more than one year are initially recognized at fair value using present value methods at the time the grants are made. Discount rates range from 1.58% to 1.69%. The Foundation reserves the right to cancel a grant at any time if it determines that the grantee is not administering the project and grant funds in accordance with the grant proposal approved by the Foundation's Board of Directors. Unconditional grants payable at December 31, 2019 are payable in the following periods:

<u>Year ending December 31:</u>	<u>Amount</u>
2020	\$ 3,032,123
2021	560,500
2022	2,272,075
2023	2,000,000
2024	1,500,000
Thereafter	1,000,000
	10,364,698
<u>Less discount to present value</u>	<u>(350,673)</u>
<u>Grants payable, net of discount</u>	<u>\$ 10,014,025</u>

5. Conditional grants

The Foundation provides grants to various organizations to fund initiatives that enhance and expand the availability and delivery of services, increase the eligible workforce and communicate the importance of proper healthcare. Some of the grants include conditions or milestones that must be met by the grantee. The Foundation reserved the right to terminate a grant if a grantee does not meet the required milestones. Conditional grants as of December 31, 2019, with milestones related to construction, staffing and implementation of services, are payable as follows:

<u>Year ending December 31:</u>	<u>Amount</u>
2020	\$ 500,000
2021	500,000
<u>Total</u>	<u>\$ 1,000,000</u>

There were no conditional grants as of December 31, 2018.

ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Federal excise taxes and minimum required distributions

The Foundation is exempt from federal income taxes and is classified as a private foundation under Section 501 of the Internal Revenue Code (IRC). The Foundation is subject to a 1% or 2% excise tax on its net investment income, including realized gains, as defined by the IRC, based on the amount of distributions made during the year. The Foundation has made the required distributions during 2019 and 2018.

Deferred tax liabilities or assets may arise because the accrual basis is used for recognition of investment income, gains and losses, but the cash basis is used for tax purposes. Taxes are payable when dividends, interest, and other investment income are received in cash and when gains are realized by selling the investments. Realized losses can be used to offset any gains realized in the same year. The excess of realized losses over realized gains cannot be carried back or carried forward to offset gains in prior or future tax years. Thus, because there are net unrealized gains on the investments held by the Foundation, the tax expense may exceed the taxes payable and would result in a deferred federal excise tax liability. There was no deferred federal excise tax liability recorded by the Foundation as of December 31, 2019 and 2018.

The Foundation believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. For the years ended December 31, 2019 and 2018, there were no tax interest or penalties recorded in the statements of activities.

7. Lease

The Foundation leases its office space under a lease agreement through February 2022.

Total minimum lease payments are required as follows:

Year ending December 31:	Amount
2020	\$ 58,021
2021	59,397
2022	10,091
Total	\$ 127,509

ILLINOIS CHILDREN'S HEALTHCARE FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Liquidity and availability

The Foundation's financial assets available for general expenditure within one year of the statements of financial position date are as follows:

December 31,	2019	2018
Cash	\$ 891,626	\$ 1,262,941
Investments	154,242,350	132,512,289
Financial assets available to meet cash needs for general expenditures within one year	\$ 155,133,976	\$ 133,775,230

As part of the Foundation's liquidity management, the Foundation invests its financial assets to be available as its general expenditures, liabilities and other obligations come due.